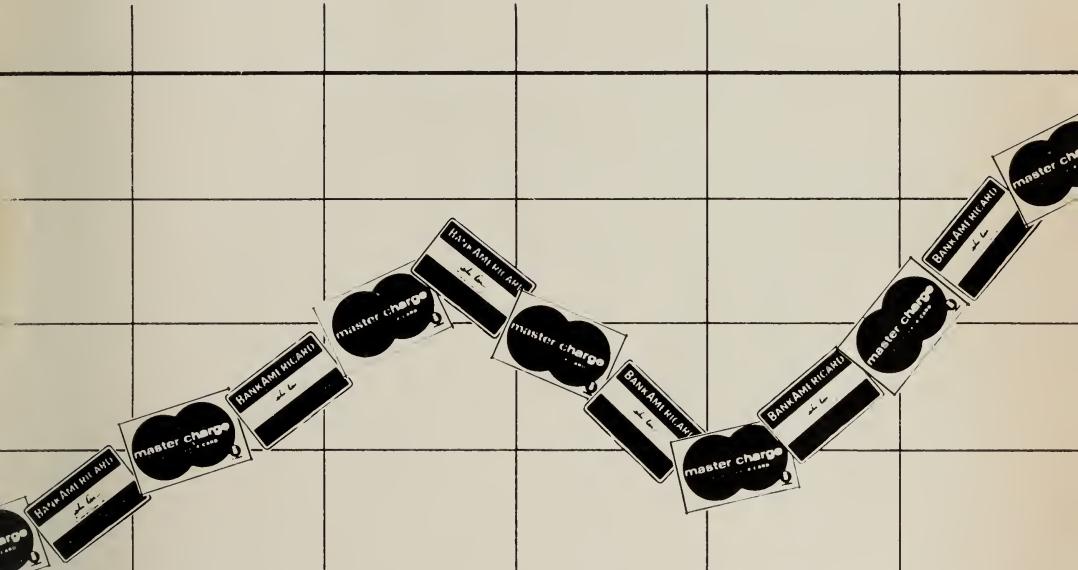




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USE OF BANK CREDIT CARDS IN GROCERY STORES



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USE OF BANK CREDIT CARDS¹ IN GROCERY STORES

INTRODUCTION

THE RAPID expansion in the use of all forms of consumer credit is of vital importance to consumers, consumer-oriented businesses, and to our general economy. Much of this increase comes from a liberalization of attitudes and policies of commercial bankers toward consumer-type loans, and to improvement of business techniques for better handling of small loan accounts. Despite growth in consumer bank loans, the primary source of all consumer credit is the thousands of retail businesses providing customers with credit.

Even though consumer credit provided by retailers is most prevalent, there is some concern among them that rapid expansion of bank credit-card plans may alter radically the traditional credit arrangements between buyers and sellers. All official and trade statistics indicate a continuing growth in the volume of retail business for which bank credit cards are used. A rapid growth in the number of bank cardholders, coupled with an impressive 70 per cent rise in the volume of credit card business from 1967 to 1968, supports these forecasts. More than 45 per cent, or \$435 million, of the nation's bank card type business was attributed to the San Francisco Federal Reserve District (14 western states) as of June 30, 1968, and card-originated business was also growing rapidly in states east of the Rocky Mountains. For firms such as retail grocers that have operated mainly on a cash-and-carry sales basis, a question of paramount importance is whether there is a desire on the part of their customers to shift from a cash to a credit purchase system. If customers wish to do so, each retailer must decide whether to operate his own credit service or participate in a for-hire commercial bank credit card plan. In view of the intense competition for customers and sales, most grocers are

giving serious consideration to the feasibility of adopting some form of consumer credit as a means of maintaining or increasing sales and profits.

In the retail grocery business, sales approached \$75 billion nationally in 1968 (Progressive Grocer, 1968, p. 82), and the authors estimate that more than 95 per cent of this was cash sales. If this is so, a shift of any significant part of grocery sales to credit transactions would have a major impact on grocery firms and their customers, and possibly on commercial banks providing the credit card plans.

Because of the competitive problem facing grocers, and the competition among commercial banks for more consumer credit business, we propose to examine the possible usefulness of bank credit-card plans to grocery firms. To accomplish this objective, we have sought answers to three basic questions.

- Is there any appreciable, or potentially appreciable, customer demand for credit services in grocery stores?
- Is there any desire or need on the part of grocery firms to offer customer credit as a means of meeting competition or for promotional purposes?
- To what extent are commercial banks promoting the sale or use of their credit card plans to grocery stores and grocery store customers?

A number of subsidiary questions arise from the three basic ones, namely:

- How would customers respond to liberal credit arrangements in grocery stores? Would there be any significant changes in their demand for different products and services?
- If grocers do shift from a purely cash to a predominantly credit-type selling, should each firm set up and operate its own credit service or should it participate in a for-hire

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- plan such as those of commercial banks?
- Who is likely to bear the cost of customer credit services?
- What problems do commercial banks face in selling their card plans to grocers?
- Is the competitive environment in both banking and the retail grocery

business suitable for an expansion of credit for grocery store customers?

California has been the bellwether for many of the technological changes that have occurred in the retail grocery business, and we have assumed that it will continue to occupy that position for the next decade. Therefore, our study results should be indicative of future changes in other parts of the U. S.

SOURCES OF INFORMATION

Most of the information analyzed in this report came from surveys of California households, grocery firms, and commercial banks. All of the surveys discussed below were made during 1968.

Household survey. We interviewed a random sample of 1,192 California consumers in their homes. The area sampled consisted of the counties north of the Tehachapi Mountains, and contains about 40 per cent of the state's population.

Retail grocery store survey. Personal interviews were used to obtain information about the policies and plans of six of the largest retail grocery chains, six large, independently owned supermarkets, and fourteen small, one-store independent grocers. The firms surveyed accounted for approximately 30 per cent of all California retail grocery store sales in 1967.

Commercial bank survey. We had several interviews with the officials of the two major firms operating bank credit card plans. The interviews with Bank-Americard covered operations in the 950 California branches of the Bank of America, as well as its card-licensing operations in other states at the time of the interviews. Information about the Master Charge Plan was obtained from officials

of the Western States Bank Card Association, a cooperative organization owned and operated by its members (about 100 western banks in 1968). The Association's Master Charge emblem is used by the member banks, each of which also may have its own name imprinted on the Master Charge cards it issues. In addition to obtaining information from officials of the Association, a mail survey of 94 of the Association's member banks was also made. Satisfactory replies were obtained from 53 banks accounting for about 90 per cent of the Master Charge volume. One independent bank which issues cards to its customers and restricts its business to a local community was also contacted.

Other information. We conducted a pilot study of check-out times required for customers using bank cards, personal or second party checks, and cash for payment of purchases in one drugstore, two grocery stores, one hardware store, and one liquor store. We also had access to four confidential administrative reports prepared for private firms interested in the feasibility of introducing bank credit cards as a means promoting sales, or matching the credit services of competitors.

CHARACTERISTICS OF CREDIT CARD PLANS

Three basic plans

Private label credit card plans have been commonplace business methods among department stores and gasoline companies for many years (Lefler, 1968). The plans have minor variations, but the common

essential feature is that each provides the customer with a plastic identification card. Thus, this amounts to a conventional credit service augmented with an identification card to facilitate transactions in mass-merchandising outlets.

Travel and entertainment card plans, such as Diner's Club and Carte Blanche, specialize in the credit card business and charge a small membership fee. Such firms cater primarily to hotels, restaurants, and their customers in the U. S. and foreign countries. The card-issuing firms sell three services. For their cardholders: (1) The card identifies the holder and authorizes any business cooperating with the card-issuing firm to honor the card for certain types of purchases. (2) The issuing firm assures, but does not guarantee, that the card will be honored by businesses cooperating with the issuing firm. (3) The firm guarantees a monthly billing service for cardholders and an automatic extension of credit on unpaid balances, provided prior arrangements have been made and a certain minimum is paid on account each month. For this credit service, the issuer charges 1.0 or more per cent per month on any unpaid balance. The for-hire credit services for merchants cooperating with the card plan firm are: (1) Assurance that a substantially large number of people will hold cards issued by the credit firm, and that each of these will be a potential customer for the cooperating merchant. (2) Assurance that the card-issuing firm will promote the use of its cards. (3) A supply of sales draft forms and other supplies required by the merchant to service the card-plan business. (4) A guarantee that sales drafts signed by a legitimate cardholder will be purchased by the card-issuing firm whenever they are presented by the merchant or his representative. Each sales draft is discounted by the card-issuing firm, the discount constituting a service fee charged a participating merchant.

Commercial bank credit card plans are provided by various banks. These services are similar to those outlined for the travel and entertainment credit card com-

panies. The essential difference is that bank plans are designed to service all kinds of businesses and their eligible customers. None of the bank plans requires a membership fee.

Bank-card plans were started in the early 1950's as a means of expanding consumer credit business. Most banks made little headway with their credit card business until 1960, and for most the important forward surge did not start until about 1966.

Until 1967 the various bank-card plans were of use to cardholders only within an issuing bank's business area because of the bank's inability to service participating merchants or cardholders outside that area. Now, two methods have come into use for getting greater geographic coverage. The first is represented by the BankAmericard plan which has expanded to out-of-state banks licensed by BankAmericard; the licensing system enable banks that are unprepared to operate their own plan to participate in an established plan. The second method is illustrated by the Master Charge plan in which a group of independent banks participate in a co-operative (the Western States Bank Card Association) that arranges for the issuance of credit cards bearing both the Association's Master Charge emblem and the name of the member bank. The Association serves as a clearing house for its members. Interbank clearing arrangements that are features of the plans give greater universality to the cards and make the services more valuable to cardholders as well as to merchants. Each of the three basic credit plans enable a merchant member to purchase the exact amount of credit service required to meet his customers' needs. It also provides an excellent method for controlling credit service costs.

GROWTH OF CREDIT CARD PLANS

The widespread interest of banks in expanding their consumer credit business is partly reflected in the number of new entries into the credit card business since 1955 (U. S. Board of Governors of the Federal Reserve System, 1968). The rate

of expansion since the Federal Reserve Report estimates for 1966 to 1967 (table 1) is indicated by the claims of officials of BankAmericard that its 1968 operation included 1,500 affiliated banks or branches, 340,000 merchant members, and 13.4

TABLE 1
BANKS OFFERING ONE OR MORE
CREDIT CARD PLANS

Year started	Number of banks offering plans	
	New entries	Cumulative total
1957 or earlier.....	27	27
1958 to 1959.....	31	58
1960 to 1961.....	3	61
1962 to 1963.....	2	63
1964 to 1965.....	5	68
1966 to 1967.....	129	197

SOURCE: [U.S. Board of Governors of the Federal Reserve Systems, 1968, p. 9].

million cardholders. BankAmericard projects a total of 26 million cardholders by the end of 1969. Master Charge expanded its bank memberships and volume during the last quarter of 1968 and the first quarter of 1969 when a few large eastern banks adopted Master Charge and gave up their own plans. By August, 1969, Master Charge affiliates were operating in 49 states. In late 1968 the Interbank Card Association claimed 2,200 affiliated banks or branches, 240,000 merchant members, and 13.2 million cardholders (Newsweek, 1968). This rapid growth of cardholders has caused some bankers to state that the number of cardholders has been expanded without the normal credit clearance precautions—a policy that arose

from competition among banks to increase both the number of cardholders and the actual use of those cards.

Competition: discount rates

Bank discount rates on sales drafts purchased from cooperating merchant members vary among banks within the same credit-card plan and among bank plans. Each bank, whether a member of a group plan such as Master Charge or a licensing arrangement with BankAmericard, sets its own discount rates, especially when bidding for the business of larger merchant members. Likewise, there often are variations for different classes of members; for example, a retail grocer might be given a 3 per cent rate and a dentist or doctor 5 per cent. Nonetheless, competition forces the banks into a fairly rigid rate pattern.

A change announced by BankAmericard only 15 days after Master Charge began operating in California, reduced its draft discount rate from 5 to 3 per cent on all drafts under \$7.50. The new schedule continued previous discount rates for drafts of \$7.50 and over, and its sliding rate scale was based on the monthly volume of drafts discounted by a merchant member (table 2).

The bank explained its rate change in its letter of July 15, 1967 to its participating merchants with this statement:

"It has been a BankAmericard policy

TABLE 2
BANKAMERICARD DISCOUNT RATES
(Effective September 1, 1967)

Average monthly volume in dollars	Discount rates (per cent)			
	Average amount of sales draft			
	Under \$7.50	\$7.50 to \$49.99	\$50.00 to \$74.99	\$75.00 and over
1 to 2,499.....	3	3	3	2
2,500 to 4,999.....	3	2.5	2.5	2
5,000 to 12,499.....	3	2	2	1
12,500 to 29,999.....	3	1.5	1.5	1
30,000 to 74,999.....	3	1	1	1
75,000 to 149,999.....	3	1	1	1
150,000 to 299,999.....	3	1	1	1
300,000 to 499,999.....	3	1	1	1
500,000 and over.....	3	1	1	1

SOURCE: Letter from Bank of America to member merchants, July 15, 1967.

over the years to keep merchant discount rates at the 'break even' point: To charge you the lowest rate possible without losing money.

"This will be the third rate reduction we've had since 1958, when BankAmericard was introduced. The latest change was made possible by the installation of new, more efficient IBM 360/65 computers, plus a major increase in business volume due to the addition of more than 450,000 new BankAmericard cardholders in the last 12 months.

"As in the past, we have chosen to pass the resultant savings along to our merchant member."

The bank's explanation of its rate calculation is:

"Computers are now calculating your *average monthly volume* and *average sales draft size*. These averages will be used to determine the discount rate you pay during the next three-month

period in accordance with the table above.

"Your rate will be re-figured in the same manner every three months thereafter. If there is to be any change in the discount rate you are charged, you'll be notified by your branch before it goes into effect."

Until August, 1969, a competitive practice of Master Charge permitted grocer members to pass on to cardholders all or part of the cost of discounting the sales draft at the card plan bank.

At the time of this study, BankAmericard forbade its participating merchants to add any service fee or charge on customers who used their BankAmericard to pay for their purchases. However, there was nothing to prevent a participating merchant from raising all his prices to cover any additional credit cost. In a highly competitive business, such as food retailing, price increases of this kind by an individual firm are unlikely.

CONSUMER ATTITUDES

A number of economic studies of the retail grocery business show that it is burdened with considerable excess physical capacity (U. S. National Commission on Food Marketing, 1966). The same studies also show that grocery firms have resorted to substantial outlays for advertising of one sort or another to increase sales volume, mainly by drawing customers from competitors. Many of the firms using promotions believe that conventional methods have lost their customer drawing power and something new must be found to replace them. Desire to increase sales promotion effectiveness is one of the principal reasons grocers have continually experimented with new methods, and are now considering the feasibility of using customer credit as a sales promotion device. Before accepting such a program, however, most grocerymen would like to know how their customers would respond.

Findings and statistics in this section were obtained from a survey of 1,192 consumers in their homes located in Cali-

fornia between the Oregon border and the Tehachapi Mountains. Table 3 shows the extent of credit card holdings among the survey sample.

More than two-thirds of the 1,192 respondents were multicardholders, which afforded such holders considerable flexibility in choosing places to shop. This

TABLE 3
CREDIT CARDHOLDERS AMONG
SURVEY SAMPLE OF 1,192 NORTHERN
CALIFORNIA CONSUMERS AND
CLASSIFICATION OF CREDIT
CARD ISSUER, 1968 SURVEY

Classification of issuer	Number of cardholders	Cardholders per cent of sample
Gasoline company.....	708	60.2
Department store.....	763	65.4
BankAmericard.....	288	24.3
Master Charge.....	279	23.6
Other banks.....	43	3.7
Grocery store.....	11	1.1
Miscellaneous.....	87	11.3

widespread multicardholding tended to dilute any promotional value for merchants who issued their private label credit cards. We also found that the 610 bank credit cards mentioned in table 3 were held by 473 respondents, indicating some multiholdings of bank-type cards.

Only 29 or 2.34 per cent of the 1,192 respondents and 18 or 3.8 per cent of those holding bank cards had used their cards to buy groceries, and then only irregularly. However, few grocers were honoring cards in 1968, none was seriously promoting their use for the purchase of groceries, and the cash-and-carry method of selling groceries was firmly established as the "proper" way to trade in a grocery store.

As the number of bank cardholders who had used their cards to buy groceries was so small, we sought to learn from non-users their reasons for non-use. The results follow:

- About 55 per cent of those sampled believed that the use of credit would not affect substantially their buying pattern for groceries, either in terms of qualities or quantities purchased at one time or per month. About 32 per cent of the sample thought that they would probably upgrade the quality of products or services bought, and would buy more at one time and over a month.

Less than 3 per cent foresaw a decrease in the items mentioned. These views of consumers were a distinct contrast to those of many bankers, who believed consumers would not exercise good judgment if they were permitted to buy groceries on credit.

- More than 60 per cent of the respondents believed that a widespread use of credit in grocery stores would cause food prices to increase. About 15 per cent thought there would be no change and 3.4 per cent believed that prices would decrease.
- None of the 1,163 non-using respondents expressed any desire to use their credit cards to buy groceries. Those of the 1,192 contacted who did express an opinion opposed such a use.

These analyses apply to survey data for the entire survey area. We also divided the survey data into three subgroups—San Francisco Bay Metropolitan, Inland Cities (Bakersfield, Fresno, Sacramento, and Stockton, and Other Towns)—to sort out any differences. However, no sharp variations were found and the sample did not warrant any substantive conclusions based on the minor variations that were found.

An effort was made to learn whether the responses of the non-users differed

TABLE 4
CREDIT CARDHOLDERS GROUPED ACCORDING TO EDUCATION
AND CLASSIFICATION OF ISSUER, 1968 SURVEY

Classification of issuer	Number of cardholders, grouped by education		
	8th grade or less*	9th through 12th grade†	Some college or better‡
Gasoline company.....	42	307	350
Department store.....	60	344	344
BankAmericard.....	23	114	148
Master Charge.....	14	111	152
Other banks.....	4	18	21
Grocery store.....	0	6	7
Miscellaneous.....	5	43	83
Total cards held.....	148	943	1,105
Average.....	1.04	1.69	2.49

* 142 respondents.

† 553 respondents.

‡ 441 respondents.

TABLE 5
CREDIT CARDHOLDERS GROUPED ACCORDING TO INCOME
AND CLASSIFICATION OF ISSUER, 1968 SURVEY

Classification of issuer	Number of cardholders, grouped by income			
	0 to \$2,999*	\$3,000 to \$6,999†	\$6,999 to \$14,000‡	\$15,000 and over§
Gasoline company.....	13	122	390	112
Department store.....	28	144	403	102
BankAmericard.....	8	46	148	57
Master Charge.....	7	41	145	48
Other banks.....	0	2	26	10
Grocery store.....	0	3	6	2
Miscellaneous.....	3	13	71	32
Total cards held.....	59	371	1,189	363
Average.....	.57	1.25	2.28	3.00

* 103 respondents.

† 297 respondents.

‡ 522 respondents.

§ 121 respondents.

significantly when they were grouped according to the level of education and income by race. The results follow:

Education

Credit cards of all types were much more likely to be found among people with some college education than among people with an eighth grade education or less. There was a larger number of cardholding respondents with some or a complete high school education over those with eight grades or less (table 4). Income also averaged higher among respondents with more formal education.

Income

We found a direct relationship between income level and cardholding among respondents. Multicredit cardholding was greatest among respondents with incomes of \$15,000 or more, and least among those with incomes less than \$3,000 (table 5).

White and nonwhite

The likelihood of a white respondent holding some form of credit card was almost

twice as great as that of a nonwhite respondent (table 6). The basic fact derived from data in tables 4, 5 and 6 is that possession of a credit card is related primarily to the income of the holder, even though the reasons for the size of that income may be attributable to education and race.

TABLE 6
CREDIT CARDHOLDERS GROUPED
INTO WHITE AND NONWHITE AND
CLASSIFICATION OF ISSUER,
1968 SURVEY

Classification of issuer	Number of cardholders, grouped by race	
	White*	Nonwhite†
Gasoline company.....	636	57
Department store.....	655	85
BankAmericard.....	247	25
Master Charge.....	248	22
Other banks.....	38	2
Grocery store.....	9	4
Miscellaneous.....	120	11
Total cards held.....	1,953	206
Average.....	2.04	1.10

* 957 respondents.

† 188 respondents.

BANK ATTITUDES TOWARD USE OF CREDIT CARDS FOR FOOD PURCHASES

Our survey of consumers indicated a negative attitude toward the use of bank credit cards for purchasing food. If there is no demand from consumers, are grocers under pressure from banks to adopt credit cards? Our survey results do not indicate any such pressure—in fact, the survey showed that many California bankers were having difficulty in reconciling their desire to expand the use of credit cards with their traditional caution about encouraging consumers to overextend themselves. For some reason, this reconciliation applied to buying food on credit more than to other types of purchases. BankAmericard did not actively solicit grocery store members while it served only its Bank of America branches, but there was nothing to prevent banks with BankAmericard licenses from following a different policy. Conversely, Master Charge had officially encouraged members to solicit retail grocery firms. Despite this encouragement, only six of the 53 Master Charge banks contacted reported any activity in this direction as of June 1968. The remaining 47 respondents had no plans to solicit retail grocers. Three respondents definitely opposed soliciting or

encouraging grocery-store memberships.

The reasons respondents gave for not promoting the participation of grocer retailers can be summarized under three headings:

- There was no indication that consumers were interested in using their cards to purchase groceries.
- Buying food on credit was an unsound financial practice for consumers because it often led to excessive buying in terms of both quality and quantity. Two respondents stated, "People who buy food on credit are the worst type of credit risk."
- It is more difficult to collect payments from cardholders who have consumed the food purchased. The interviewers probed further by asking whether there was any reason why consumers should be more reluctant to pay their bills for food already consumed than they would be for gasoline, liquor, restaurant meals, or hotel rooms which are often the primary uses for credit cards. The usual reply to this question was, following a pause, "Probably not."

GROCERS' ATTITUDES TOWARD USE OF CREDIT FOR PROMOTIONAL PURPOSES

In May 1968 about 1.3 per cent of the 164,000 food retailers in California were affiliated with either BankAmericard or Master Charge, or both.* Rough estimates based on our 1968 survey of grocer retailers suggest that less than 1 per cent of the sales in grocery stores in the state was bank credit card sales. This volume seems small; however BankAmericard had not encouraged the use of their plan in grocery stores and grocery sales to customers using the Master Charge cards were insignificant. When this study was

started in the first part of 1968, grocers generally were not encouraging customers to use bank cards to pay for groceries, but by the end of 1968 there was a noticeable change toward a modest, if not an active, promotion of card-type sales—also, both BankAmericard and Master Charge were more active in signing up grocer members during the latter part of 1968. In fact, some of the larger banks in the Master Charge group were actively bidding for business from some of the large chain grocers and supermarkets. Moreover, at

* Master Charge banks had 1,200 grocery firms among its total membership of 84,000 firms in May 1968. BankAmericard had 900 out of a membership of 80,000 during the same month. This is about the same percentage as reported by Townshend-Zellner [1960, p. 85].

least four large chains were testing the feasibility of using cards.

One grocery firm contacted had sent a mail questionnaire to its customers to get their reactions to a proposed plan to introduce customer credit, either as a bank-card plan or a company plan. Replies were received from more than half of the questionnaires mailed out. Of these replies, 80 per cent opposed introduction of credit for purchase of food and 5 per cent stated that they would use a credit card in a grocery store on "special occasions."

Only 3 of the 26 grocers interviewed believed there was any merit in affiliating with a bank credit-card plan. Twenty-three believed that their net profit of less than 1.5 per cent on each dollar of sales precluded any consideration of a

bank-card plan that would cost them from 1 to 3 per cent on each dollar of credit card sales. The most telling argument against joining a plan was that "none of their customers had asked for such a service."

Grocers interviewed said they would not affiliate with a bank credit-card plan, nor introduce their own customer-credit service if it could be avoided. They were aware that use of trading stamps, games, premium coupons, and newspaper advertising had become less and less effective as sales stimulants. Fears were expressed that introduction of customer credit by any large grocery firm would force other grocers to follow suit. Conditions that might cause grocers to offer credit services as an alternative method of stimulating sales will now be examined.

COMPETITIVE ENVIRONMENT IN THE GROCERY BUSINESS

The number of supermarkets (annual sales of \$500,000 or more) in the U.S. rose from about 20,000 in 1955 to more than 35,000 in 1965. On an average this placed each household within shopping distance of five to six supermarkets in 1965 compared to two to three in the late 1940's and four to five in the late 1950's [Progressive Grocer, 1968, p. 81]. Such ease of access to competing supermarkets emphasizes the potential, if not the actual, state of competition in the retail grocery business. It also appears to have contributed to the drop from about 378,000 grocery stores in 1948 to about 226,000 in 1968 [Jurgell, 1967, pp. 2, 11]. Even this 40 per cent drop in the number of stores apparently has not been sufficient to remove the excess physical capacity in the retail sector, partly because of the marked increase in the size of the supermarkets built in recent years.

About 72 per cent of the nation's, and 83 per cent of California's, grocery sales were made by independent and chain supermarkets during 1968. Even though there were variations among the markets in the kinds and qualities of products and services offered customers, there was a remarkable degree of standardization of these items, as is true with any industry

catering to a mass market. The effect of such standardization is to blur the proprietary image that causes customers to shop at one supermarket rather than another, or to shop at more than one or all of the markets if they choose. A diminished proprietary image may be the reason that his "store has a customer turnover of 40 per cent each year" according to a recent statement by the manager of a large chain-operated grocery store.

In view of competitive conditions, one would expect rival firms to use every known managerial strategy to keep costs down and sales volume up. The more important strategies follow.

Competitive practices

Competition among grocers has all of the characteristics found in other kinds of merchandising establishments. The emphasis may be on price competition, in which the markup policy of the seller is deliberately held down in order to price the same products below those of competitors. Such a low markup policy is the basis for the "discount" type store, especially those that offer most of the conventional retail services. A second competitive practice is to sell lower quality products, or to provide inferior services at

prices below those charged for better qualities of products and services. A third is to maintain quality services and product standards while using internal operating efficiencies to lower costs and prices. A fourth practice is to offer additional services or better quality products at prices charged for the standard qualities sold by competitors. Finally, there are some retailers who sell standard quality products and offer customary services at higher than competitive prices while seeking to maintain or increase volume and profits through sales promotions. None of these methods is new, and the method chosen depends on each manager's ideas about the best means of reaching his firm's profit objective. The usual procedure is to experiment with various sales promotion methods, adopting those that yield the best results and discarding those that are no longer as effective as newer methods. The real management problem is to find a reliable way to measure promotional results.

Price and nonprice sales competition

The National Commission on Food Marketing (NCFM) found that it was necessary to increase sales volume by 21 per cent in order to effect a 1 cent per dollar decrease in the gross margin or operating costs of a typical grocery store (table 7) [U.S. National Commission on Food

Marketing, 1966, pp. 139-152]. This would imply that the firms included in the NCFM sample had very little excess physical capacity. Considering the inelasticity of demand for food, it is unlikely that a grocer could increase his sales by such a percentage unless (1) he draws customers from competing grocers, (2) the population in the trade area rises abnormally, or (3) he expands his sales of nonfood items for which there is a greater markup. In communities with a relatively static population, the competitive objective is to draw customers away from other grocers by using some form of price or service inducement.

The Commission found that grocers competed mainly on a service basis from 1955 through 1963 [U.S. National Commission on Food Marketing, 1966, p. 239]. In fact, it attributed much of the 19.32 per cent widening of the gross marketing margin (which averages about 20 cents per dollar of sales) during that period to the addition of various customer services and trading stamps [U.S. National Commission on Food Marketing, 1966, p. 269]. According to Brown and Day [1967-1968, p. 10] operating margins began declining in 1964 to 1965. We believe that this decline arose from keener price competition and was associated with a rising opposition from consumer groups to higher food prices,

TABLE 7
CHANGE IN VOLUME REQUIRED TO REDUCE COST
IN RETAIL GROCERY STORES, 1963

Test	Cost at average volume (cents per dollar sales)*	Per cent increase in volume to lower cost 1 cent	Cost at $\frac{1}{2}$ average volume	Per cent increase required to lower cost 2 cents
1.....	18.12	25.2	21.22	58.1
2.....	14.42	31.3	18.56	38.6
3.....	14.57	19.0	18.61	42.9
4.....	13.78	17.7	17.64	37.2
5.....	20.63	24.1	24.73	40.6
6.....	19.30	15.2	24.79	29.8
7.....	15.07	19.5	19.14	42.4
8.....	19.38	16.8	23.39	32.5
Average.....	21.1	40.3

* Cost in cents per dollar sales adjusted to average sales per square foot observed and to 8,000 or 12,000 square foot store size, whichever was closer to average store size observed. Variation in cost levels between tests accrue from different size and utilization of store facilities and from different accounting procedures.

SOURCE: U.S. National Commission on Food Marketing, 1966, p. 147.

TABLE 8
CUSTOMER SERVICES AVAILABLE
IN 100 SUPERMARKETS

Type of service	Percentage (by year) of supermarkets offering service		
	1967	1963	1959
Check cashing.....	100	100	99
Air conditioning.....	97	94	92
Off-street parking*.....	91	NA†	NA
Music.....	89	86	79
Express check-out.....	65	69	61
Recipes.....	43	40	NA
Customer restrooms.....	35	30	31
Parcel pick up station.....	32	33	28
Home delivery.....	11	13	10
Credit.....	4	2	3
Kiddie corner.....	3	8	12
Hostess.....	2	2	NA

* Sperry and Hutchinson Company, New York, New York.

† NA = Data not available.

SOURCE: Super Market Institute, 1959, 1963, 1967.

and with consumer demands that some promotional activities be reduced in order to lower food marketing costs. This consumer movement reached its peak in the fall of 1966 when consumer boycotts were attempted in several cities. Such actions did cause a slowing down of some promotional excesses. They also prepared a fertile ground for the growth of the "discount" grocer who features lower prices or markups and depends on a price appeal to increase patronage and sales volume.

The success of Lucky Stores, Inc., a large national grocery chain with a low markup policy instituted in 1966, rekindled a movement among grocers toward price competition that spread from coast to coast during the first nine months of 1968. According to discount grocers contacted, the shift to competitive pricing was required to stop any further erosion of sales volume. However, merchants contacted during our April, 1968, survey who had introduced discounting maintained that price reductions to consumers could not be achieved unless there was a substantial reduction in customer services and a major restructuring of the retail grocery business. Despite the belief expressed in April, 1968, that a lower pricing policy would be unfeasible, more than half of the large and medium size chains operating in California had shifted to a discount type price policy by November, 1968. It is too soon to know what impact the shift to direct price competition will have on the grocery business; however, other things being equal, one would expect an increase in the number of failures among small firms and a further concentration of sales in large independent and chain-operated supermarkets. This thesis was explored by Duft and DeLoach in a 1966 study [1967].

Customer services

The most common services offered grocery store customers are listed in table 8 [Jurgell, 1967, p. 11, table VII; and Super Market Institute, 1959]. Some—off-street parking and air conditioning—are now so commonplace that they are classed as necessities whether or not

competition is on a price or service basis. Check-cashing privileges and night and Sunday store hours are conveniences; however, we have been unable to find any significant variation among retailers in any trade area. Wherever night and Sunday services are eliminated, special conditions appear to exist in the form of restrictions in union contracts or in consumer cooperatives. Perhaps the most important service is the stocking of a wide range of products. Available estimates show that a supermarket stocked an average of 7,350 items in 1967 compared to 867 in 1928 and 3,750 in 1950 [Progressive Grocer, 1968, p. 82]. Information obtained from retailers during this study also indicates that special consideration was being given to the cost of check cashing (estimated at 12 to 28 cents per check by different retailers), and to the number of hours per day and the number of days per week the store is kept open. The trading hours are especially important in most California communities because union contracts require 50 to 70 per cent overtime wage scales for Sunday and holiday employment. Managers are experimenting to find the optimum number of items to stock and the most suitable trading hours.

Advertising and other forms of sales promotion

Because bank credit cards would be used to promote the sale of groceries by a particular firm, a basic question facing grocers and consumers is whether their use would merely add to the list of existing methods and thereby increase marketing costs and prices. Considering the open opposition of some organized consumers to prevailing advertising practices and costs, the dilemma facing a grocer is especially severe.

Jurgell [1967, pp. 11-13] states, "The retailer is being pressured by government and more recently by consumers. These groups are questioning the use of promotion and its relationship to higher prices. They want retailers precluded from using promotions such as trading stamps and shopping games." Elsewhere she wrote, "The retailers' current position with regard to promotion is a difficult one. They are caught in a two-way bind which will become increasingly difficult to move out of . . . they are experiencing more and more competition for the same number of customers which is forcing them into using more and more promotion." Jurgell also observed that the intensity of the 1966 promotional efforts arose from a need to "find unique ways of attracting larger and larger shares of customers," and a need to replace promotions that have lost their excitement for customers.

Beem [1968, p. 12] stated in his testimony before the NCFM, "Thus there is a competitive cycle of new customer attraction, imitation or retaliation, profit erosion, and then another new customer attraction. Whether the cycle forces expense rates and gross margins up depends upon the extent to which there exists in the market some firms with successful mixtures of customer attractions which enabled them to hold down their expense rates and gross margins."

Promotion costs

According to the NCFM study [1966, p. 234], an average of 1.1 cents of each sales dollar spent in grocery stores in 1964 went for advertising and promo-

tion, excluding trading stamps. More than half of the outlay went to newspapers. Trading stamps accounted for another 1.3 cents of each sales dollar. In our study we estimate the expenditures for advertising and trading stamps in California stores to be about the same or slightly lower than the national average—the data were inadequate for a better comparison. Because of the current state of competition, grocers are beginning to analyze more closely their 2.5 cents per sales dollar for promotion. This 2.5 cents is equivalent to 13 per cent of the average gross margin of retail grocers.

The practice of reporting advertising costs as a percentage of each sales dollar disguises the size of the total bill for retail grocery firms. It also eliminates any consideration of the increase in the total bill for advertising arising from a growth of sales volume, such as the \$31.8 billion or 58 per cent increase in dollar sales in the country from 1956 to 1967. The significance of these totals is indicated by the following comparisons.

Based on 1967 grocery sales for the country [Progressive Grocer, 1968, p. 236] and California [State Board of Equalization, 1968] we calculate that approximately \$1,202 million were spent in 1967 for promotion by grocery firms. Of that total \$816 million went for advertising and promotion and \$386 million for trading stamps. The California calculated total is \$136.5 million, of which \$92.7 million went for advertising and promotion and \$43.8 million for trading stamps. The calculations assume that only 40 per cent of grocery sales included trading stamps.

Even though total promotional costs for the grocery trade seem awesome, offsetting operating efficiencies and increased competition resulting from promotional activities probably reduces somewhat the burden on the consumer. Likewise, one might rationalize that the cost of trading stamps is merely a disguised form of prepaying for merchandise being sold by a stamp company that redeemed the stamps with merchandise. Thus, customers who refuse to accept or fail to redeem their trading stamps are losing purchasing power.

The NCFM study [1966, pp. 235 and 458] used Super Market Institute data to show that total advertising and other promotional expenses, including stamps, rose .5 of 1 cent per sales dollar from 1954 through 1963 for markets surveyed. The rise was attributed to trading stamps. Moreover, it concluded, "These data strongly suggest that trading stamps have been a major factor responsible for increasing gross margins during the last 10 years." We find this a curious type of reasoning as it excludes any thought of a merchant abandoning other less-productive advertising methods, and fails to take into account any purchasing power value for stamps.

There is a strong indication that a substantial part of the cost of promotion in the retail grocery business, including stamps, is now defensive in character and it is being used largely to prevent a further deterioration in the user's sales volume. Whether the costs are passed on to

customers, or taken out of profits, depends on the demand structure for retail services in a particular market at a given time. In any event, the grocery trade may have reached a point of diminishing or negative profits in the use of trading stamps and some other forms of promotions in current use [Progressive Grocer, 1968, p. 80].

The increased volume of sales in discount stores indicates that managers are seeking a new approach to the problems created by too many grocery stores and overcapacity. In this environment of change, the question uppermost in the minds of many grocers, bankers, and consumers is whether the introduction of customer credit services would stimulate sales sufficiently to maintain, or improve, the profit position of the businesses offering credit. If customer credit is introduced by a grocer, the question of what form it should take arises. The bank credit card service offers another alternative.

CASH TRANSACTIONS ACCOUNT FOR MOST GROCERY SALES

Statistical evidence is lacking but it is generally believed that 60 to 65 per cent of all retail grocery sales in 1930 were made on open accounts. In rural communities and small towns, credit sales continued as the primary form of transaction until World War II. While it might have been necessary for some retailers to finance their credit business directly, the burden was usually shifted to wholesalers who customarily granted 30- to 90-day no-interest credit to retailers. Wholesalers' credit costs were included in the price of merchandise sold to retailers. Price discounts of about 2 per cent were given to retailers who paid their accounts within 10 days following the delivery of merchandise.

Cash-and-carry selling began moving to the forefront during the 1930's. The lower retail store prices that were a part of cash-and-carry selling attracted ever increasing numbers of consumers. This new form of selling increased during World War II when jobs were plentiful,

wages were paid weekly, and workers were moving to new communities where they did not have a credit rating. An increase in the number of people receiving welfare and social security payments on a regular basis also helped create an environment favoring cash transactions, particularly after 1955.

By 1950 open-account sales of groceries constituted only a small part of total grocery sales, and we estimate that by 1968 less than 1 per cent of sales were made in this manner. Our system for merchandising groceries is now geared to transactions in which the mechanics of settlement operate smoothest when cash is used. Perhaps the most awesome aspect of shifting back to a credit system of any type in a short period is the fact that two generations of consumers have grown up under a predominantly cash payment system for groceries. Many consumers view any change with suspicion, and think that prices will increase if a credit system is adopted.

THE DECISION SHOULD BE BASED ON ESTIMATES OF COST AND REVENUE

A grocer's objective in introducing a customer credit service may be either to increase net profit, maintain present net profit position, or minimize declines in net profits. From a business standpoint, the decision should be made in terms of whether his proposed customer credit service will cost more than it is worth. A simple way to approach this question follows:

Assume that merchant A's 1968 gross sales were \$1,000,000, his gross margin was \$200,000 or 20 per cent, and his net margin or profit was \$15,000 or 1.5 per cent. He decides to investigate the feasibility of a change from a completely cash to a credit system of selling beginning January 1, 1969. He learns that his customer credit costs will average 3 per cent on each dollar of products sold on credit. Under the prevailing competitive conditions, there is no possibility of passing the credit costs on to his customers. Neither can A figure on lowering other operating costs to offset the credit service costs. Other conditions, with respect to fixed and variable costs, remaining unchanged, A must increase his gross sales from \$1,000,000 to \$1,176,470 in order to earn as much in 1969 as he did in 1968. The new sales requirement was derived in this manner:

$$\begin{aligned} \text{Sales needed to obtain same net profit as 1968} &= \\ \text{Present gross margin (dollar)} & \\ \text{Present gross margin (\%)} - \text{credit costs (\%)} & \\ \$200,000 & \\ = \frac{\$200,000}{.20 - .03} & = \frac{\$200,000}{.17} = \$1,176,470 \end{aligned}$$

In order for net profits for 1969 to exceed those for 1968, gross sales would have to exceed \$1,176,470, assuming a comparable fixed cost structure. If 1969 gross sales fall below \$1,176,470, net profits will be reduced. Should 1969 gross sales amount to only \$1,000,000, A's realized gross margin would be \$170,000 instead of \$200,000 which would mean a net loss of \$15,000 for the year compared to a profit of the same amount in 1968. If A's

credit card sales for 1969 are only 50 per cent of his total sales, his total sales required to maintain his 1968 net profit position would be \$1,081,081 ($\$200,000 \div .185$). This lower break-even point of \$1,081,081 reflects the smaller dollar volume of customer sales drafts that would have to be discounted by merchant A.

The foregoing illustration provides an easy method for estimating sales requirements when there is a complete shift from cash to credit selling. There are other problems, however, particularly under competitive conditions in which there is little opportunity for a merchant to increase his sales without taking business from a competitor. In this latter instance it is assumed that total grocery sales in a market area will remain about the same from period to period, and that the grocerymen in that area have managed to capture varying shares of the total sales. It is within this setting that merchant X decides to explore the feasibility of adopting a for-hire bank credit-card plan. Therefore, he hires a consultant to analyze the problem and to provide sufficient information for a feasibility determination.

Neither X nor the consultant has access to good information about the existing sales and costs of grocers operating in the market. Hence, the consultant decides to use a simplified model to show the competitive impact should one merchant in the area initiate a bank credit card plan as a means of stimulating sales and have enough time to reap the rewards from his innovation. For this type of analysis, only three parameters are relevant, namely:

a = the proportion of shoppers in the market area who hold bank credit cards.

b = the proportion of cardholders who would shift their patronage from a grocery store where cards are not accepted to one offering such a service. The ones who would shift are called "swingers."

c = the percentage share of the market held by the initiating grocery store.

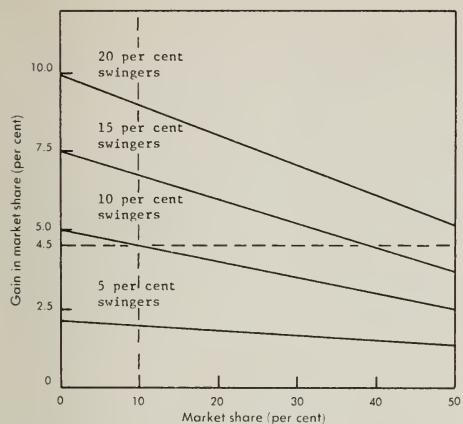


Fig. 1. Share of market gained for each initial market share for four levels of swingers.

It is assumed that "a" is fixed at 50 per cent of all shoppers, "b" is allowed to vary from 1 to 20 per cent, and "c" can vary from 1 to 50 per cent. Under the conditions specified, the consultant is able to show in diagrammatic form (figure 1) the gain in the number of customers (or sales) that would result from selected combinations of "b" and "c." For example, the 10 per cent swinger line intersects the line of a firm with 10 per cent of the total market at 4.5 per cent. This means that the firm could increase its market share by 4.5 percentage points or

45 per cent ($4.5 \div 10$) of its current sales volume. However, a firm with a 40 per cent share could only increase its sales by 3 percentage points or 7.5 per cent.

In figure 2 it is assumed that a plan-initiating grocer is located in a market area where total annual sales for all grocers is \$1,000,000. Lines A, B, and C represent the dollar sales gain for each proportion of swingers when the initiating grocer's market share is 10, 25, and 50 per cent. For example, merchant X_1 with a 10 per cent share of the sales would increase his sales by \$36,000, provided there were 8 per cent swingers and provided he had time to reap the reward of his innovation. With the same number of swingers, X_2 would gain \$30,000 if he were the first to initiate a plan. Assuming that the dashed line in figure 2 represents the cost of operating a plan, one can estimate for each combination of market share and per cent of swingers whether the initiator will break even, gain, or lose by operating a credit-card plan. Merchant X_1 with a 10 per cent share of the market will break even on his card operation if about 4 per cent of the shoppers with credit cards are swingers. The break-even points for merchants X_2 and X_3 can be located in the same manner.

Two generalizations are possible from figures 1 and 2: (1) the smaller a firm's market share, the smaller the per cent of

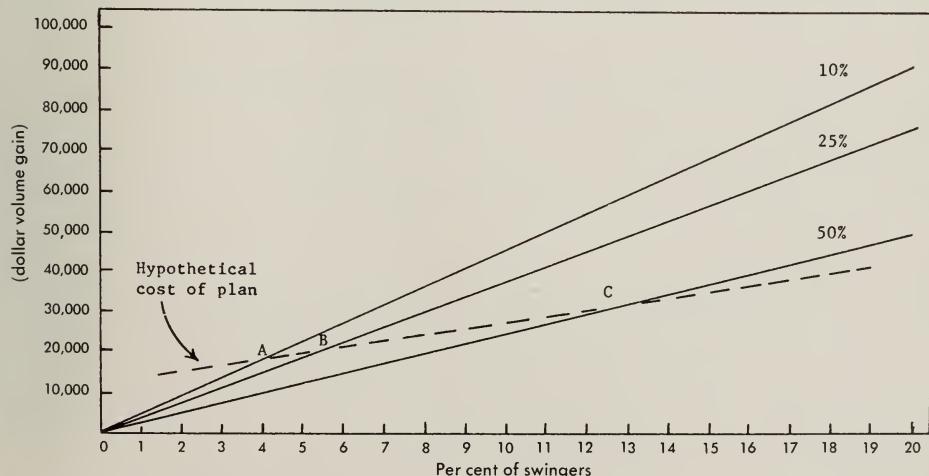


Fig. 2. Dollar volume gain for range of swingers from 1 to 20 per cent when market shares are 10, 25, and 50 per cent. (Based on total annual grocery sales of \$1,000,000.)

swingers in a market it needs to break even and the larger the profit it stands to gain as volume increases above the break-even point, and (2) the smaller the per cent of swingers the more difficult it is for all firms to break even. This circumstance favors the firm with a small market share.

The simplified model overlooks one important piece of information needed to decide whether to adopt a bank card plan. This is the degree to which card-holders will upgrade their purchases either by buying better or more expensive products or by buying greater quantities of the same products. Since upgrading often tends to increase the customary margin received by a merchant, it should reduce the sales increase needed to break even on any fixed level of bank credit

card costs. This is illustrated in tables 9, 10, and 11 where we have applied the simple formula given on page 16 to determine break-even points under assumed conditions.

It is apparent that an upgrading yielding a 2 percentage point greater gross margin reduces the sales increase needed to recover the cost of customer credit.

An upgrading of customer purchases assumes greater importance to a grocer when the cost of a bank credit card service is 4 rather than 2 per cent on each dollar of sales.

The current level of gross margins is relevant to a final decision.

Table 11 shows that at lower levels of gross margin, upgrading to higher margin products becomes more important.

TABLE 9
EFFECTS OF UPGRADING OF CUSTOMER PURCHASES ON
MARGINS AND SALES NEEDED TO BREAK EVEN

No upgrading	Upgrading to higher margin products
Present sales volume.....	\$1,000,000
Present gross margin.....	22 per cent
Present card cost.....	2 per cent
Sales needed to break even.....	\$1,100,000
	Present sales volume.....
	\$1,000,000
	Present gross margin.....
	24 per cent
	Present card cost.....
	2 per cent
	Sales needed to break even.....
	\$1,090,909

TABLE 10
EFFECTS OF UPGRADING OF CUSTOMER PURCHASES ON MARGINS
AND SALES NEEDED TO BREAK EVEN WHEN
CREDIT CARD COSTS ARE DOUBLED

No upgrading	Upgrading to higher margin products
Present sales volume.....	\$1,000,000
Present gross margin.....	22 per cent
Present card cost.....	4 per cent
Sales needed to break even.....	\$1,222,222
	Present sales volume.....
	\$1,000,000
	Present gross margin.....
	24 per cent
	Present card cost.....
	4 per cent
	Sales needed to break even.....
	\$1,200,000

TABLE 11
EFFECTS OF CURRENT LEVEL OF GROSS MARGINS ON SALES NEEDED TO
BREAK EVEN WHEN CREDIT CARDS ARE INTRODUCED

No upgrading	Upgrading to higher margin products
Present sales volume.....	\$1,000,000
Present gross margin.....	16 per cent
Present card cost.....	2 per cent
Sales needed to break even.....	\$1,142,857
	Present sales volume.....
	\$1,000,000
	Present gross margin.....
	18 per cent
	Present card cost.....
	2 per cent
	Sales needed to break even.....
	\$1,125,000

COSTS OF SERVICING A CREDIT CARD PLAN

The foregoing tables have assumed a flat bank charge or discount rate for sales drafts purchased from a grocer by his card-plan bank. However, the bank charge is not the only cost a grocer bears—other costs may be significant or insignificant, depending on the underutilized capacity of an establishment.

Three cost items seemed worth examining in connection with the operation of a credit-card plan; namely: (1) extra equipment needed, (2) the checkout or payment operation, and (3) endorsement and delivery of sales drafts to the plan's bank. A further examination revealed that (1) was of little importance as it amounted to one payment of approximately \$25 per imprinter. Likewise, (3) was found immaterial because the bank normally does not require an endorsement and the drafts were deposited in the same manner as customer checks. Moreover, the number of checks received should decrease as a by-product of the use of bank cards. Therefore, our attention was directed to the check-out operation in which the time required for credit card transactions could be a critical cost item when compared to other methods of payment.

To learn the relative importance of credit card transaction costs, we made observations in four different types of retail establishments during July and August, 1968. We studied the transaction

time from the ringing up of the purchase on the cash register to the completion of the payment, that is, the time required by the checker for accepting the payment, waiting, imprinting, tendering the sales slip or change to the customer, and any other activities relating to the transaction at the check-out counter. Table 12 shows the comparative times.

The range in the transaction time for credit cards was so wide that we think more practice by checkers in using the card transaction method would sharply reduce the time taken per transaction. Both the personal check and open account methods of settlement at the check-out counter require the retailer to have his own credit and collection service and to risk bad check losses—neither of which is necessary with a bank-card plan.

TABLE 12
TRANSACTION TIME AT CHECK-OUT
COUNTER, JULY AND AUGUST, 1968

Type of transaction	Average time per transaction	Range of averages by store
	seconds	
Cash.....	25.9	22.1 to 32.8
Open account.....	48.2	48.2
Bank credit card.....	80.7	68.0 to 109.3
Personal check.....	99.0	87.9 to 115.0

CONCLUSIONS AND IMPLICATIONS

Expansion of consumer credit business of commercial banks has gained further momentum since 1966 as a result of greater public use of bank credit cards for the purchase of a wide assortment of consumer goods and services. Until the mid-1960's, the use of bank credit cards centered largely in California where the Bank of America's BankAmericard plan had successfully weathered several lean years. As late as mid-1968, about 45 per cent of the dollar volume of bank card-type sales were made in the 14 western states included in the San Francisco Federal Reserve District. This volume was

based primarily on the California business of BankAmericard and Master Charge, the latter operated by member banks in the Western Bank Card Association. Bank credit card-types sales in the midwest, south, and east grew rapidly during 1968.

Despite the growth in card-originated business since 1966, card-type sales in grocery stores grew very little. While estimates both nationally and in California vary, none indicates that more than 1 per cent of all bank card transactions are for groceries. With such a low usage, retail grocers are in the process of deciding whether to affiliate with some for-hire

plan such as BankAmericard or Master Charge.

In our study we considered that the critical test of the feasibility of a retail grocer participating in a bank-card plan is the extent of customer demand for such a service. In our sample of 1,192 California consumers we found no such demand, nor any indication of it arising in the near future. In fact, only 29 (or 2.4 per cent of the sample) had used any form of credit to buy groceries and that usage was irregular. Apparently, the non-use of credit arose from its unavailability in most stores, since 55 per cent of the respondents did not think that their use would lead to excesses or change their buying patterns. However, 60 per cent thought that widespread offering of credit in grocery stores would increase prices.

A current lack of consumer interest, no matter what the cause, probably accounts for much of the attitudes of the retail grocers sampled. Of the latter, only 3 of the 26 sampled firms, accounting for about 30 per cent of California's grocery business in 1967, were favorable to the use of any form of credit for buying groceries. Despite this unfavorable attitude, when questioned, grocers generally believed that competition might force them to either affiliate with and actively promote the use of bank-card sales, set up their own credit service, or go out of business. These reactions underlined the basic concern of retailers, namely, their ability to pay for consumer credit services of any kind as long as their competitive environment prevented them from raising prices. For most merchants, a bank plan would cost somewhere between 1 and 3 per cent of each dollar of card sales in the form of a discount on sales drafts submitted to the merchant's bank for payment. Because the bank's discount rates are based on volume, they favor large volume grocery firms. In addition to the cost of discounting sales drafts received from customers, a merchant also must absorb any additional costs that arise from the handling of credit cards in place of other forms of payment. Our pilot study of check-out counter costs for bank card, cash, checks, and open account transactions suggested that any added card han-

dling costs might not be significant, as they would be offset by a reduction in check cashing losses (which are frequently high). Another favorable factor disclosed by the check-out counter study was the likelihood that the time consumed by bank-card transactions could be reduced greatly as clerks become more familiar with the mechanical routine of handling cards, and when check-out counter layouts become better organized for such an operation.

Unless other retailing costs can be reduced, or consumer prices can be increased sufficiently to offset any added costs of credit, or sales volume of a firm can be increased to a point where its added net revenue equals or exceeds its added credit costs, the retailer has no inducement to use a card plan. It appears from the experiences of grocers with other forms of promotional media, particularly trading stamps, that any gains to an innovator would be short-lived because the same bank-card plans are equally available to all firms in a market area. A more important fact is that competitors who are seeking new sales stimulators may adopt bank-card plans for that purpose. If this competitive move occurs, a retailer might not have a choice between adopting credit or cash selling; he might have to offer his customers a credit service as a means of survival.

Banks operating credit-card plans have been either indecisive or cool toward promoting the use of their cards for the purchase of groceries. The most frequently offered reason for their attitude was that the net margin of most grocers is insufficient for them to afford to offer credit services. Of course, this is no more true than it is for any other promotional method. An adoption of credit should depend on whether it will do more to stimulate sales than some other media. The merchant has to make that decision. The second reason offered by bankers was that the purchase of groceries on credit is economically unsound because the product is consumed before it is paid for. This is based more on folklore than economics. Many consumer goods (gasoline, electricity, and liquor) are consumed before they are paid for. It appears to us that the in-

decisiveness of banks in promoting the use of their card services in grocery stores has been that they had their hands full in soliciting clients and setting up the mechanics for serving less complicated selling operations.

Despite the policies of banks in promoting their business with grocery stores, and the attitudes of consumers and grocers toward the use of credit to buy groceries, the failure of conventional promotional media to offer anything new to stimulate sales has created a demand for a new stimulator. A checkmate now exists among retailers in use of various forms of promotion, but this is not likely to continue.

The authors attribute the present reluctance of consumers to using bank cards for buying food to a long period of conditioning to a system of cash-and-carry buying by the food industry. The conditioning process took at least one generation. Once completed, and when most retailers had shifted their sales methods to a cash-and-carry system, their customers had no acceptable alternatives. It is quite possible that we are now witnessing the beginning of a return to credit selling in grocery

stores. True, it is a more sophisticated system and banks have become the primary service agencies. The basic differences, however, are those that arise from the mechanics of handling sales transactions and the shifting of credit risks from the grocer to a bank. Whether the grocer will bear the cost of credit in the form of lower net margins, or the consumer will pay for it in the form of higher prices, depends on the supply and demand for retail grocery store services. Current competitive conditions suggest that grocers' net margins will be reduced sufficiently to eliminate many of the small, inefficient firms, and this may speed up the concentration of more of the nation's food business in fewer firms and stores. In this respect, there are several social as well as economic changes that warrant study. Among the more important are the extent to which the size of investment becomes a barrier to business entry, the possibility of banking firms or their subsidiaries becoming the owners or principal investors in retail grocery firms, and the social and economic consequences from the closing of small grocery stores.

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To simplify this information, it is sometimes necessary to use trade names of products or equipment. No endorsement of named products is intended nor is criticism implied of similar products not mentioned.

ABSTRACT

The study examines the feasibility of retail grocers affiliating with one or more bank credit card plans in order to promote sales. The feasibility tests were the strength of consumers' demand for such a service and the impact on sales and profits. Consumer demand was found to be almost nonexistent—in fact, there was pronounced opposition to the introduction of any form of credit in grocery stores. Moreover, less than one per cent of California's 1968 grocery store sales were bank card transactions. Derived cost estimates disclosed that it would be possible for a small-volume grocer to increase sales and profits substantially, provided he would affiliate with a bank card plan and could induce a small part of the total market's customers to shift their business to him. Under present conditions, there is little likelihood of credit card plans playing a major role in the retail grocery trade.



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